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S E C R E T SECTION 01 OF 03 MANAMA 001432

SIPDIS

PASS TO EB/ESC/TFS FOR BADKINS,
S/CT FOR TKUSHNER AND NICHOLS,
EUR/PGI FOR LREASOR, EUR/WE FOR NFETCHKO, NEA/ARPI,
IO/PSC FOR BFITZGERALD, NSC FOR JZARATE,
TREASURY FOR DGLASER AND OFAC FOR RWERNER

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SUBJECT: OFAC DIRECTOR WERNER'S MEETINGS WITH FINANCE
MINISTER, MINISTER OF SOCIAL AFFAIRS, CENTRAL BANK GOVERNOR

Classified By: Ambassador William T. Monroe, reasons 1.4 (b) and d).

SUMMARY

1. (S) Office of Foreign Assets Control (OFAC) Director Robert Werner met with the Minister of Finance Sheikh Ahmed bin Mohammed Al Khalifa, Minister of Social Affairs (MSA) Dr. Fatima Belooshi and the Governor of the Bahrain Monetary Agency (BMA) Rasheed Al-Maraj in Bahrain September 14-15. Topics discussed included reports of irregular transactions by International Islamic Relief Organization (IIRO) which circumvented Bahraini regulations on charities and their financial transactions. Shaikh Ahmed and Governor Al-Maraj expressed their commitment to investigate the transactions and recognized the immediate importance of enhancing GOB monitoring of charity financing. The BMA later reported that the IIRO accounts had been identified and closed and that the BMA was assessing what action should be taken against the bank. Shaikh Ahmed provided an update on the status of Bahrain's Terrorism Finance Law, stating that the Cabinet passed a draft law but it had not yet been submitted to Parliament. Governor Al-Maraj described the current GCC focus on terrorism finance issues. Dr. Belooshi agreed to look into the issue of IIRO transactions, but thought the BMA would be the enforcing authority on the matter. Dr. Belooshi also described organizational changes planned for the MSA. End Summary.

2. (U) During his visit to Bahrain on September 14-15, OFAC Director Robert Werner, accompanied by the Ambassador, called on the Minister of Finance Sheikh Ahmed and BMA Governor Al-Maraj in separate meetings. On September 14 Werner, accompanied by the DCM, also met with Minister of Social Affairs Dr. Belooshi. Director Werner was accompanied throughout by a delegation which included OFAC Associate Director Jamal El-Hindi, Treasury Office of Intelligence and Analysis Middle East Unit Chief Howard Mendelsohn, NEA/ARPI Arabian Peninsula Econ Off Reese Smyth, OFACAtt and Econoff.

SUSPICIOUS IIRO TRANSACTIONS RAISED

3. (S/Rel Bahrain) Director Werner informed Shaikh Ahmed, Dr. Belooshi and Governor Al-Maraj that, according to information available to the U.S. Government, during the first half of 2005, IIRO headquarters provided over \$7 million from an account in Shamil Bank of Bahrain in Manama to 18 different IIRO satellite offices. Among these transactions, IIRO provided funds from the Bahrain account to three Saudi Embassies. Director Werner noted that the second largest single recipient of these funds was IIRO's Djibouti office. (Note: This information was also shared with the Bahraini Financial Intelligence Unit (FIU). End Note.)

4. (C) Shaikh Ahmed and Governor Al-Maraj each expressed surprise upon learning about the transactions and each said he placed great importance on protecting the corruption-free reputation of Bahrain's financial system. Shaikh Ahmed said that this was the first instance since 9/11 that he had learned of any problems, noting the Ministry's strong relationship with banks operating in Bahrain. He quickly added, "That doesn't mean there couldn't be something," and assured Director Werner and the Ambassador that the matter would be investigated.

5. (C) Neither Shaikh Ahmed nor Governor Al-Maraj appeared familiar with IIRO and each initially suggested that the issue would not be as serious if the IIRO turned out to be a legitimate charity. Shaikh Ahmed said he would seek additional information on IIRO.

IIRO Account Positively Identified

6. (C) Twelve days after releasing the IIRO account

information to the Bahrainis, the BMA told the embassy that the IIRO account had been positively identified. Shamil Bank had failed to comply with account opening instructions, and had failed to comply with regulations on reporting significant transfers by a charity. BMA officials added that the account was not frozen because IIRO is not a designated entity but that the account has been closed, and the balance of the funds returned to IIRO. The BMA Governor will decide what action to take against Shamil bank upon completion of the ongoing investigation. According to a BMA official, the Agency could issue an official warning letter, fine the bank BD 20,000 (\$53,000) and/or close the account.

SCRUTINY OF CHARITIES EMPHASIZED

17. (S) Director Werner pointed out that there was no indication that the specific IIRO transactions described were associated with terrorist activity and emphasized that the issue was the vulnerability to abuse that these charity-related transactions seemed to expose which made it important to identify and address any possible weaknesses in enforcement of regulations. The Ambassador observed that terrorist tactics are constantly evolving in search of new weaknesses to exploit. Financing through charities is a case-in-point. Director Werner noted that combating terrorist financing is often difficult because transactions supporting terrorist activity may be intermingled among legitimate charity projects.

18. (S) Governor Al-Maraj acknowledged that IIRO transactions represented a breach in policy, since banks were required to report any transactions greater than BD 3,000 (roughly \$8,000) and the IIRO transactions had not likely been reported. (Note: The BMA reduced the reporting requirements from BD 20,000 to BD 3,000 on July 21, 2005) OFACAtt pointed out that, since IIRO is a Saudi entity, the transactions represented a violation of the KSA ban on Saudi charities engaging in extraterritorial financial activity and added that IIRO was not registered as a charitable organization in Bahrain. Governor Al-Maraj acknowledged that the organization should not have a bank account in Bahrain, and would not have been authorized to retransmit funds abroad. He also said IIRO should have notified the Ministry of Social Affairs before initiating the transactions.

19. (C) Governor Al-Maraj said he would raise the need for increased scrutiny of charity financing with Minister of Social Affairs. Shaikh Ahmed said he would advocate a redoubling of intelligence sharing between bankers, Ministry of Interior public security resources, and other governments. (Note: The BMA is reportedly providing the Ministry of Social Affairs with monthly reports of overseas transactions. End Note.)

Terrorism Finance Law

110. (C) Turning to Bahrain's Terrorism Finance Law, Sheikh Ahmed said a draft had been approved by the Cabinet, but it had not yet been presented to Parliament. It had been hung-up by debate over the Terrorism Law, which is necessary to define terrorism as a predicate offense. Nevertheless, he expected a final product modeled after terror finance legislation in the U.K. and Singapore, and said the GOB was pushing hard for it.

GCC Terrorist Finance Efforts

111. (SBU) Governor Al-Maraj noted that he had recently attended a GCC Central Bankers Conference and observed that each of his colleagues was genuinely focused on the importance of countering terrorist financing systems. He said the topic was regularly discussed at various GCC meetings throughout the year. Governor Al-Maraj added, while terrorist finance legislation common to all GCC countries would be unworkable, GCC Central Bankers were committed to harmonizing their banking procedures to better address the threat. He said a GCC sub-committee dedicated to this end had been formed and met on a regular basis.

Minister of Social Affairs

112. (SBU) During the meeting with the Minister of Social Affairs, Director Werner stressed the importance of oversight of charitable organizations. Dr. Belooshi responded that the MSA had sent a letter recently to remind the charities that no money could be transferred abroad without permission from the MSA. She noted that the Charities couldn't open an account without an MSA license and that a charity could only

have one account. Additionally, she noted that the BMA now gives the MSA a monthly report on overseas transfers and that the MSA maintains a file with information on each charity.

113. (SBU) Dr. Belooshi was surprised by the information on the IIRO account because the organization was not registered in Bahrain, so it should not have been able to open an account or transfer money. She promised to look into the allegations but thought that the issue should be handled by the BMA and not the MSA.

Changing the MSA's name and reorganizing

114. (SBU) Dr. Belooshi also described her plans to reorganize the MSA. This included changing the Ministries name to the "Ministry of Social Development" and creating an entire directorate to cover NGO,s. The new directorate would have a department to review NGO financing and a division that would help develop NGOs.

MONROE